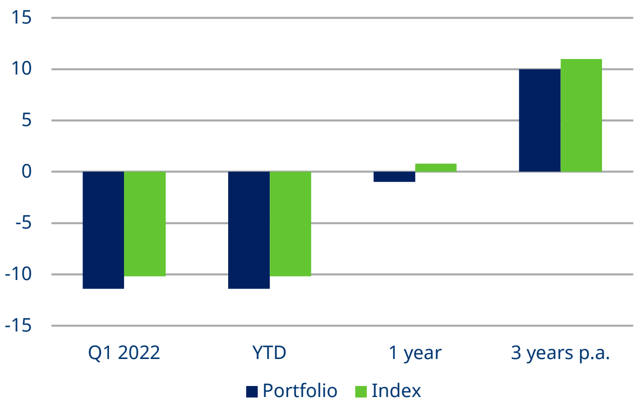
Schroder ISF* Swiss Small & Mid Cap Equity
Quarterly Fund Update
First quarter 2022

Returns to 31 March 2022 (%)

A accumulation shares
CHF returns



Source: Schroders, net of fees with net income reinvested, as at 31 March 2022.

	Q1 2022	YTD	1 year	3 years p.a.
Schroder ISF Swiss Small & Mid Cap Equity A Acc	-11.4	-11.4	-1.0	10.0
Swiss Performance Index Extra SPIEX	-10.2	-10.2	0.8	11.0

Source: Schroders, net of fees with net income reinvested, as at 31 March 2022.

Past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

Calendar year returns (%)

	Fund	Index
2021	21.1	22.2
2020	10.4	8.1
2019	24.0	30.4
2018	-17.3	-17.2
2017	23.9	29.7
2016	13.8	8.5

Source: Schroders, net of fees with net income reinvested, as at 31 March 2022.

Summary

The Schroder ISF Swiss Small & Mid Cap was down -11.4% in the first quarter of 2022, underperforming the benchmark by -1.2%. Over one year, the fund lost -1.0%. Over three years, annualized performance stands at +10.0, underperforming the index by -1% per annum.

Overall, stock markets suffered a steep decline until mid March, but recovered towards the end of quarter of 2022. Volatility spikes were observed at the end of January and early March due to higher than expected inflation and the escalation of the Russia-Ukraine conflict. As a consequence, markets discounted a deterioration of the economic outlook, now tilted towards a stagflationary environment.

The MSCI World lost -3.9%, slightly behind the S&P500 (-3.5%); the MSCI Europe declined -6.6% (all measured in CHF). In Switzerland, small & mid caps (SPIEX) declined by -10.2% and underperformed the large cap segment (SMI TR) by -5.9%.

During the first quarter of 2022, we increased industrial stocks Forbo, Bucher, Daetwyler, Oerlikon, Schindler, Schweiter and Zehnder, in the healthcare sector Idorsia, Tecan, Medacta and Straumann, as well as Julius Baer, Also, Comet and Sig Combibloc. We reduced, Interroll, SFS, Swatch, Orior, Galenica, Ascom and Sonova. We entirely sold Vifor Pharma and Sulzer.

Portfolio characteristics

Fund manager	Daniel Lenz
Managed fund since	28 June 2002
Fund launch date	28 June 2002
Fund benchmark	SPI Extra
Fund size	CHF 181.5mn
Annual management fee	1.50% p.a.
Ongoing Charges (latest available)	1.84% p.a.
Number of stocks in fund	47
Fund base currency	CHF
ISIN	LU0149524034
Bloomberg Ticker	SISSSMA LX
Swiss security number	1440474

Source: Schroders, as at 31 March 2022.

*Schroder International Selection Fund is referred to as Schroder ISF throughout this document.

Economic environment

The year began with worries over rising inflation, which together with a very tight job market, spurred fears over an excessive Central Banks' tightening. This was exacerbated by the economic consequences of Russia's invasion of Ukraine, which caused a spike in commodity prices, especially energy, which is putting high pressure on companies' margin.

In Switzerland, the State Secretariat of Economic Affairs (SECO) has adjusted growth expectations from 3.2% to 2.8% for 2022. For 2023, a growth of 2.0% is expected. Inflation is expected to increase from 0.6% in 2021 to 1.9% in 2022 (SECO 14.03.2022). Compared to other regions, inflation should stay substantially lower in Switzerland also as a result of the strong Swiss franc which is dampening the inflation impact from imports.

Market environment

Overall, stock markets suffered a steep declined until mid March, but recovered towards the end of quarter of 2022. Volatility spikes were observed at the end of January and early March due to higher than expected inflation and the escalation of the Russia-Ukraine conflict. As a consequence, markets discounted a deterioration of the economic outlook, now tilted towards a stagflationary environment.

The MSCI World lost -3.9%, slightly behind the S&P500 (-3.5%); the MSCI Europe declined -6.6% (all measured in CHF). In Switzerland, small & mid caps (SPIEX) declined by -10.2% and underperformed the large cap segment (SMI TR) by -5.9%.

Within Swiss small & mid caps, real estate (+2.5%) and financials (+0.5) were the only sectors in the positive territory. Technology (-20.2%) and industrials (-14.2%) were the worst performing segments in the quarter under review.

Performance review

The Schroder ISF Swiss Small & Mid Cap was down -11.4% in the first quarter of 2022, underperforming the benchmark by -1.2%. Over one year, the fund lost -1.0%. Over three years, annualized performance stands at +10.0, underperfroming the index -1.0% per annum.

In the quarter under review, defensive stocks of the portfolio performed best. We benefitted from holdings in the insurance companies Helvetia and Baloise, from St. Galler Kantonalbank, Orior and Galenica. Also positive was our holding in SFS, one of the few industrial stocks with a positive return on an absolute basis in our universe. In addition, relative performance benefitted from underweights in VAT Group, Straumann, Bachem, Zur Rose and Temenos.

On the negative side, biggest detractors were our holdings in Tecan, Daetwyler, SoftwareOne, Bystronic, Comet and Interroll - with the exception of Tecan - solely stocks from the industrial and technology sector. In addition, underweights in real estate companies Swiss Prime Site and PSP Swiss property as well as our underweight in Barry Callebaut detracted from relative performance.

Please note that past performance is not a reliable indicator of future results, prices of shares and the income from them may fall as well as rise and investors may not get the amount originally invested.

Risk considerations

The capital is not guaranteed.

Investments in small companies can be difficult to sell quickly which may affect the value of the fund and, in extreme market conditions, its ability to meet redemption requests upon demand.

The fund will not hedge its market risk in a down cycle. The value of the fund will move similarly to the markets.

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Portfolio positioning as at 31 March 2022*

Sector	Relative weights
Financials	4.20%
Cons. Discretionary	2.00%
Cash and other	1.70%
Technology	1.60%
Utilities	1.00%
Industrials	0.90%
Communication	0.10%
Healthcare	-0.50%
Basic Materials	-2.10%
Cons. Staples	-3.40%
Real Estate	-5.50%

Top 10 overweights	Relative weight (%)
Daetwyler	3.3
Forbo	2.5
VZ Holding	2.3
Comet	2.0
Orior	1.9
Baloise	1.9
Swissquote	1.9
Zehnder	1.9
Galenica	1.8
SFS	1.8

Top 10 underweights	Relative weight (%)
Kühne & Nagel	-3.6
Lindt & Sprüngli	-3.2
VAT Group	-2.9
Barry Callebaut	-2.4
Adecco	-2.2
SPS	-2.1
Straumann	-2.0
EMS-Chemie	-1.9
PSP	-1.7
Clariant	-1.1

Source: Schroders, as at 31 March 2022.
*Data can differ from our factsheet due to different sources.

Key portfolio activity and positioning

During the first quarter, we took advantage of the market volatility and made some portfolio changes.

We increased industrial stocks Forbo, Bucher, Daetwyler, Oerlikon, Schindler, Schweiter and Zehnder. In the healthcare sector, we increased Tecan and Medacta, reduced our underweight in Straumann and added to our position in Idorsia after the company got the FDA approval for its sleeping drug Quviviq in the US. In addition we increased as well as Julius Baer, Also, Comet and Sig Combibloc on valuation reasons.

On the other hand, we divested from Vifor Pharma and Sulzer. Vifor Pharma received a takeover offer from the Australian biotech company CSL. The decision to sell Sulzer was taken after the invasion of Russia of Ukraine, as risks of restrictions have increased because of sanctions against its main shareholder, Victor Veckselberg. In addition, we reduced Swatch Group and Ascom after a surprising CEO change. In addition, we took profits in SFS, Interroll, Sonova, Galenica and Orior.

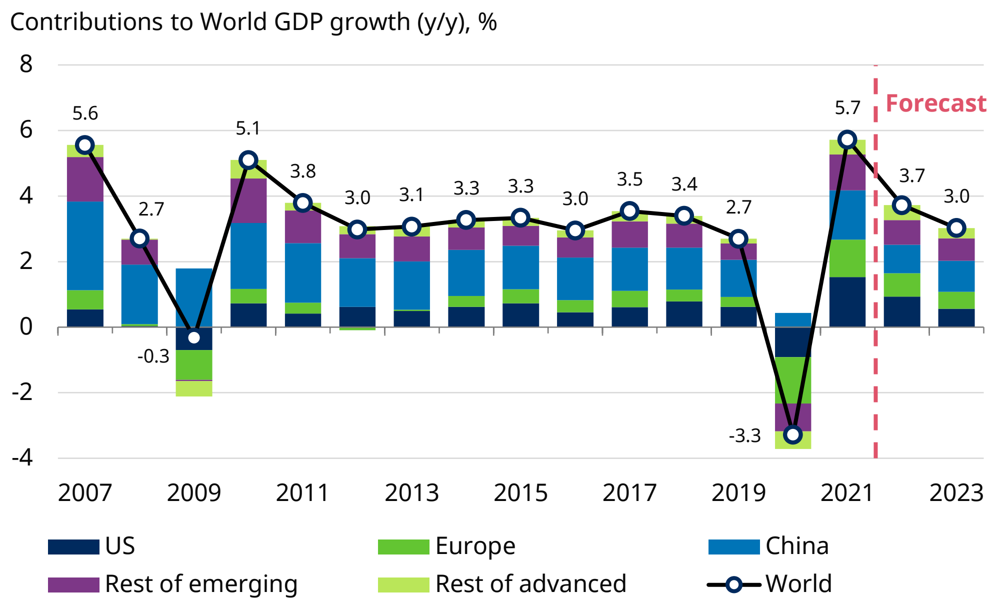
Outlook

Since Russia's invasion of Ukraine on 24 February, the pace of escalation has been rapid. Not only in terms of Russian actions, and their terrible impact on Ukrainian people, but also regarding the response from Western allies.

From a trade and finance perspective Russia is not significant enough to derail the world economy. However, the links through commodity prices are key and Russian aggression looks set to keep energy and food costs elevated. The fall in asset prices if sustained will also dampen global activity as will higher uncertainty. In this respect events in Ukraine add a further stagflationary twist to the outlook by pushing up inflation and weakening growth. The tightness of labour and product markets means that we were already heading in this direction.

We now expect global growth of 3.7% this year and CPI inflation coming in at 4.7%. In our previous forecast last November these figures were 4% and 3.8% respectively. Significant downgrades to the Eurozone and UK account for the weaker growth forecast whilst inflation is revised up across the board. We still expect pent up savings to provide a cushion for consumers against the increase in living costs to maintain spending and growth. An easing of supply chains and peaking in commodity price rises should also help ease inflation, as will a moderation and rebalancing in consumer demand as fiscal stimulus fades.

Despite the changes to the global forecast, the risks are still skewed toward stagflation either through a wage-price spiral or an even greater escalation of the Ukraine crisis. The chances of rising prices triggering another recession, as in earlier cycles, have clearly risen especially as central banks have limited room for manoeuvre given the high level of inflation and lack of economic slack.



Source: Schroders Economics Group. 25 February 2022. Please note the forecast warning at the back of the document.

In Switzerland, the State Secretariat of Economic Affairs (SECO) has adjusted growth expectations from 3.2% to 2.8% for 2022. For 2023, a growth of 2.0% is expected. Inflation is expected to increase from 0.6% in 2021 to 1.9% in 2022 (SECO 14.03.2022). Compared to other regions, inflation should stay substantially lower in Switzerland also as a result of the strong Swiss franc which is dampening the inflation impact from imports.

For equity markets, the elevated volatility seen in the first quarter was initially a result of higher than anticipated inflation and as a reaction a more hawkish communication of central banks, especially of the FED in the US. In late February and early March, markets suffered a second down leg caused by the invasion of Russia into the Ukraine. Markets recovered towards the end of the quarter from low levels. Given that the Ukraine crisis has increased inflationary pressure, the economic outlook has deteriorated. On the other hand, Covid-related restrictions cease, at least in the Western world, and supply chain issues are expected to slowly improve over the course of the year. As a result we continue to be optimistic for Swiss companies. They offer excellent quality – many companies have zero debt -, are geographically well diversified and are often leaders in their niche. Companies with such attributes overcome more difficult times much easier and come out of a crisis even stronger. There are large variances how companies have been affected by Covid-related restrictions and how they handled the more recent input price increases, supply bottlenecks and logistics challenges. For us as active managers, the dispersion on how companies handled the challenges together with stock price volatility always offers excellent buying opportunities. In line with our proven long term strategy, we have already started and will continue to add to stocks that have corrected excessively but offer high quality and have displayed good handling of the recent challenges.

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